

Philip Evans - How Data Will Change Business

"... business strategy has always been premised on assumptions about technology and those assumptions are changing ..."

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Strategy in business owes its origins to Bruce Henderson and Michael Porter

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Henderson

- Henderson's central idea was the idea of 'concentrating mass against weakness', of overwhelming the enemy.
- And that there are many phenomena in business that economists would call 'increasing returns' - for example scale and experience.
- The more you do of something the disproportionately better you get at it
- There is therefore a logic in investing in such kinds of overwhelming mass to achieve a competitive advantage.

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Porter

- Agrees but qualifies it.
- States that businesses actually have multiple steps to them ...
- ... different components - and each of those components could be driven by a different kind of strategy.
- Porter formed the concept of the 'value chain'.
- A value chain is the sequence of steps with for example, a raw material becomes and finished product and that product is then distributed ...
- ... and a business can accrue an advantage to each of those components - so competitive advantage could be considered the sum or average of the advantage accrued at each of those steps
- Businesses can also accrue a disadvantage at each of those steps.
- It is important to note that the concept of the value chain was predicated on the recognition that what holds business together is transaction costs ...
- ... and transaction costs have two components - one is about processing information - the other is about communicating information.

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"it was on those two ideas - Henderson's idea of concentrating mass against weakness and Porter's idea of the value chain - that the whole edifice of business strategy was erected"

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Evan's principle argument is that those premises are now being invalidated - by technology.

In short, the internet has drastically reduced transaction costs - in particular communication costs - and this has had profound consequences.

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"... because if transaction costs are the glue that hold value chains together, and they are falling, there is less to economize on"

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He gave the example of the collapse of the Encyclopedia industry as an example of this.

And stated that Wikipedia is an example of a new and altered business model - facilitated by technology - a model where the product is created by its users - the second decade of the internet economy.

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"The internet as a noun has become the internet as a verb. It has become a set of conversations. An era in which user-generated content and social networks became the dominant phenomenon"

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What this does is generate a substitute for traditional corporate production. And generates a power shift - a shift in the way we perceive control.

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One of Evan's most profound statements was the following:

"It means, we need to work out a way to accommodate collaboration and competition simultaneously"